California Public Employees' Retirement System (CalPERS)
Alternative Investment Management Portfolio

Quarterly Report
Executive Summary

(As of September 30, 2011)

Presentation Date: December 12, 2011

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1.0 Executive Summary

Private equity is a long-term asset class with performance results influenced by various factors. This report concentrates on several key exposures that contribute to performance results, including sector, geography and vintage year. In addition, broad industry trends are highlighted that may affect performance results going forward.

1.1 Overall Alternative Investment Management (AIM) Program Performance

This reporting period is the first to incorporate the new Policy Benchmark for the AIM Program. The Policy Benchmark, reflecting the global nature of the Program, is now 67% FTSE US TMI + 33% FTSE AW x-US TMI + 3%, 1-quarter lagged. Given the one-quarter lag for returns, this reporting period does not reflect the stock market volatility that has occurred since August. AIM underperformed the Policy Benchmark over all periods evaluated. The inclusion of the Custom Young Fund Index[1] in the Policy Benchmark until July 2009 and strong public markets performance post-July 2009 contributed to the Program's underperformance over the longer three-year and five-year periods. Despite strong absolute returns over the latest one-year period, AIM trailed the Policy Benchmark by 7.5% as public equity valuations appreciated more than private equity valuations.

Performance vs. Policy Benchmarks

	1 Year	3 Year	5 Year	10 Year
AIM Program[2]	**28.4%**	**6.1%**	**10.2%**	**8.9%**
AIM Policy Benchmark[3]	*35.9%*	*13.9%*	*14.2%*	*10.2%*
Excess Return *v. Policy Benchmark*	(7.5%)	(7.8%)	(4.0%)	(1.3%)

Source: Wilshire Associates

[1] The Custom Young Fund Index is composed of private equity holdings that lagged in being written-down as the public markets declined in the reporting period.
[2] The net asset value of CalPERS' AIM portfolio is lagged one quarter with adjustments for current cash flows through the reporting period
[3] Currently equals (67% FTSE US TMI + 33% FTSE AW x-US TMI) + 3% 1-quarter lagged from and since September 2011; the Wilshire 2500 ex-tob +3% since July 2009; previous periods for the AIM Policy Index are linked historically to the Custom Young Fund, AIM's prior benchmark

1.2 Highlights of Program Activity

- After three consecutive quarters of positive net cash flows (distributions exceeding contributions), the third quarter of 2011 exhibited a **slight negative cash flow** (contributions exceeded distributions).

- The **Buyout sector continues to be the largest proportion of the AIM Program** at 51% and was the largest contributor to performance due to continued valuation increases (across all transaction sizes). In the third quarter, AIM elected to reclassify certain sectors to better depict exposure to Fund of Funds and Direct/Co-Investments. This resulted in a decline in the aggregate buyout exposure from prior reports.

- The United States, representing the largest exposure of the portfolio, had the largest impact on performance results over the past year. AIM invests globally and has **approximately 41% of net asset value (NAV) outside of the United States.**

- An analysis of the existing unfunded commitments shows that general partners have **substantial "dry powder"** ($14.1 billion), the majority of which is expected to be deployed within the next three years (as determined by the termination of the investment period).

- Although the Program is in its twenty-first year, the preponderance of value and performance results are being **driven by investments made in the last ten years**.

- The **five largest relationships represent approximately 34% of total exposure** (defined as market value plus unfunded commitments). Amongst these five firms, capital is allocated across 80 investments (investment vehicles, partnerships and direct investments) and targets multiple sectors and geographies.

- The following report does not reflect the effects of the stock market volatility that occurred since August 2011.

1.3 Industry Trends

- After experiencing a year-over-year decline in 2010, **fundraising activity saw an increase in commitments** through the nine months of 2011 and is expected to exceed levels seen in 2010. However, the pace of fundraising has slowed in the second half of the year as market volatility has returned and uncertainty has increased. The market may become bifurcated, resulting in the most attractive funds being quickly over-subscribed, with the remainder continuing to struggle in this challenging environment.

- In the third quarter of 2011 **buyout transaction volume continued to decline** due to multiple factors, including: remaining uncertainty about the economic recovery and European economic stability, increased competition from strategic buyers, the potential impact of impending financial regulations and a rebuilding of transaction pipelines. After the burst of activity in the fourth quarter of 2010 (which many believe was influenced by the potential expiration of tax cuts), buyout transactions decreased over the most recent three quarters.

- **Higher levels of risk appear to be returning to the leveraged buyout market**. Purchase price multiples increased in the third quarter of 2011 and debt multiples continued to rise, resulting in less equity required to complete transactions. The gap between purchase price multiples for large leverage buyout (LBO) transactions and middle-market LBO transactions had narrowed in 2010, but appear to be widening over the first nine months of 2011.

- **Venture capital investment activity has increased** year-over-year for the two years, despite exhibiting a slight decrease in investment activity from Q2 2011 to Q3 2011. There are several favorable dynamics in the venture capital industry that suggest potential for attractive long-term results going forward, including: reduced commitment to venture capital (i.e. less capital chasing deals and creating competing companies), ability for entrepreneurs to create new companies at a lower cost due to ongoing technological enhancements, and fewer venture capital firms competing for deals.

- **Exit activity for venture capital investments continues to show signs of improvement**. Merger and acquisition (M&A) transactions continued to exhibit consistent exit activity during the third quarter of 2011, but the initial public offering (IPO) market declined in number with only four IPOs during the quarter. Many industry participants believe that there is significant imbedded value within existing venture portfolios, and registration for IPOs has increased, but material exits are going to be necessary to positively impact the poor venture returns over the last decade.

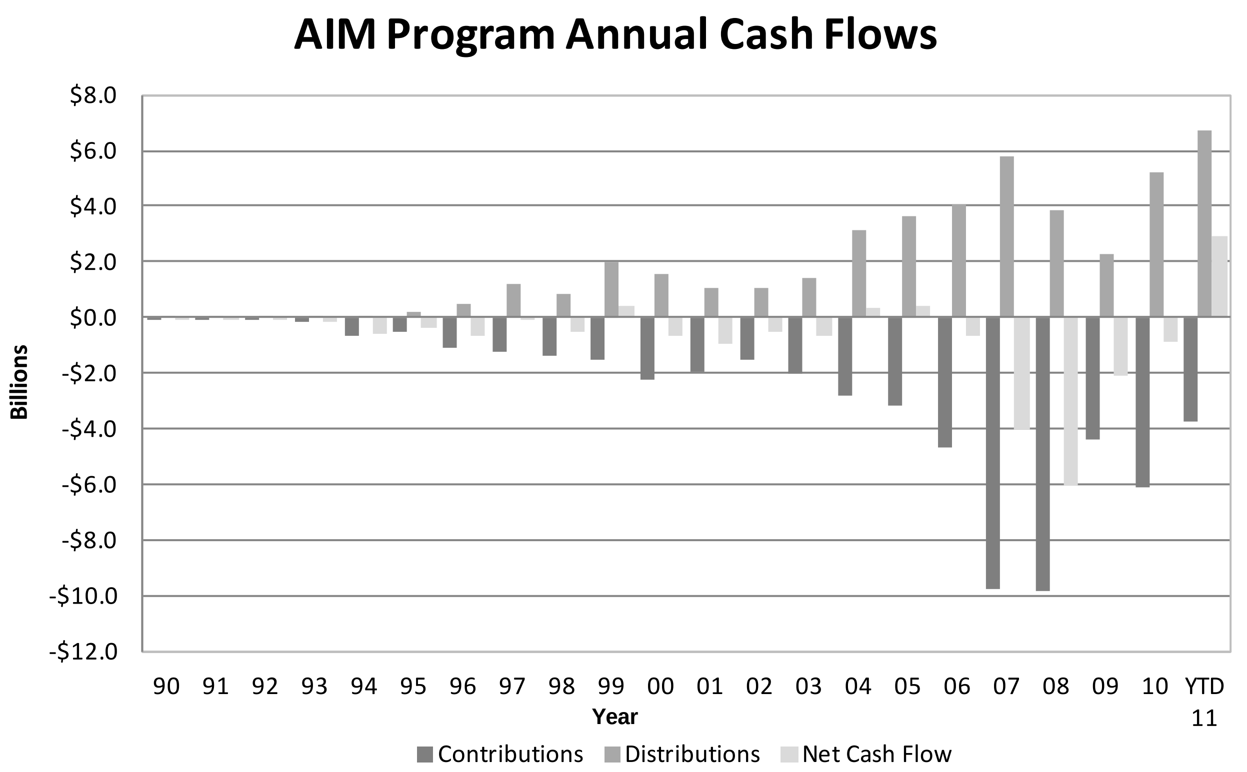
- The **outlook for distressed debt investment strategies is mixed**. The rebound in debt pricing had minimized the opportunity for trading strategies, but the recent market volatility has resulted in a decline in pricing (according to the Leveraged Loan Index produced by the Loan Syndications and Trading Association). The resurgence of concerns regarding the economic environment may again tighten lending standards, increasing the opportunity set for debt-for-control transactions.

- At the present time, the **impact of European capital markets volatility on the AIM program is not known**.

2.0 AIM Performance Overview

2.1 Portfolio Cash Flows

During the first nine months of 2011, **AIM's net cash flow was positive** (distributions exceeded contributions). Distribution activity was high due to more friendly credit markets, the re-emergence of the dividend recap, and greater use of the IPO market through the first six months of the year. Distribution activity decreased over the most recent quarter as market volatility and economic concerns returned.

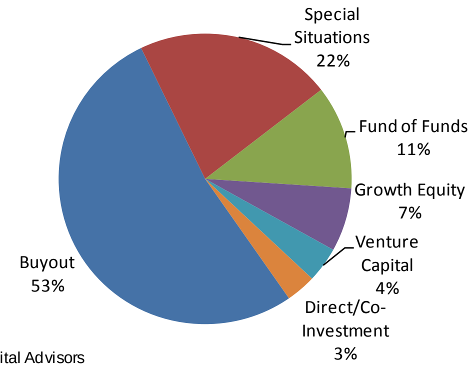


Source: LP Capital Advisors, PCA

2.2 Portfolio Sector Composition and Performance

Sector distribution reflects the markets that AIM believes will enable it to produce the expected return imbedded in the Investment Committee's asset allocation decisions. The following charts portray distribution by NAV. The **Buyout sector continues to be the largest proportion** of the AIM Program at 51%. This report reflects reclassified sectors to better depict exposure to Fund of Funds and Direct/Co-Investments.

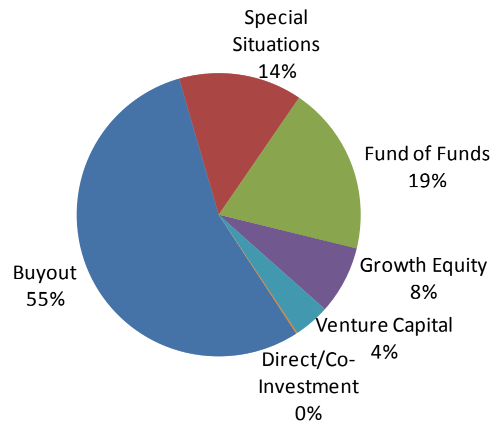
AIM Program NAV by Sector: $34.0 B



Source: LP Capital Advisors

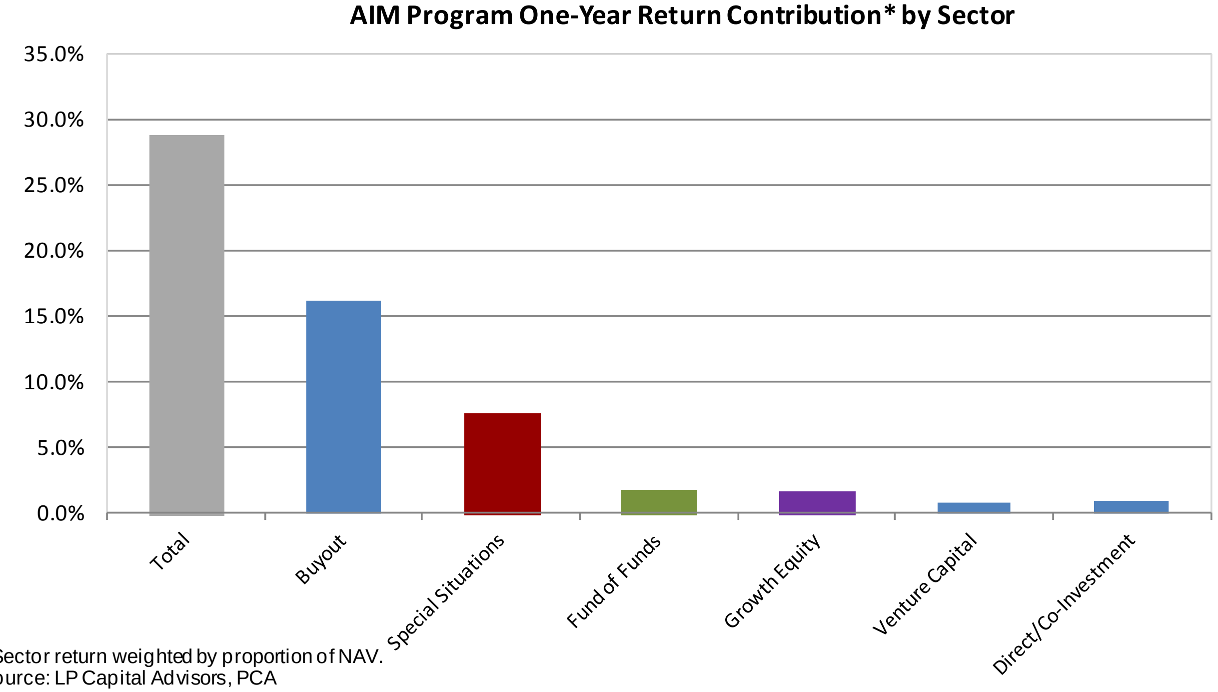
Sector-wise, Buyouts represent the greatest proportion of the Program's unfunded commitments and will therefore continue to be the largest exposure within the AIM Program going forward.

AIM Program Unfunded Commitments by Sector: $14.1 B



Source: LP Capital Advisors

While all major sectors of the AIM Program contributed positive results over the latest year, **Buyouts were the largest contributor** to performance as the material exposure to the sector continued to experience valuation increases (across all transaction sizes). Special Situations, representing 24% of the AIM Program, was the second largest contributor to results with the rebound in debt prices earlier in the year.



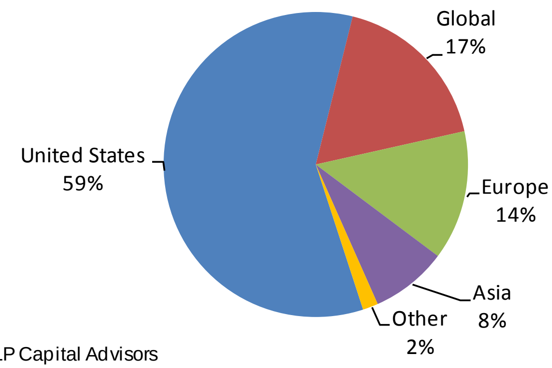
* Sector return weighted by proportion of NAV.
Source: LP Capital Advisors, PCA

Over the latest three-year period, the AIM Program posted a 6.1% average annual return. The three-year results reflect the difficult investment environment and associated valuation declines during the economic crisis with the subsequent rebound in pricing. In addition, implementation of ASC 820 (previously FAS 157) contributed to the volatility of valuations over this time period as assets were "marked-to-market." The Buyout sector (with a 7.1% return) was a large factor in results over the latest three-year period due to its significant allocation. The Special Situations sector was also a large contributor to results posting an 11.7% return over the last three-year period. The Buyout sector has generated attractive results over the longer five-year and ten-year periods, posting average annual returns of 12.7% and 15.6%, respectively.

2.3 Portfolio Geographic Composition and Performance

AIM, like CalPERS' other asset classes, invests globally. Approximately **41% of AIM's NAV is outside of the United States** (based on partnership mandate), highlighting the global nature of the Program.

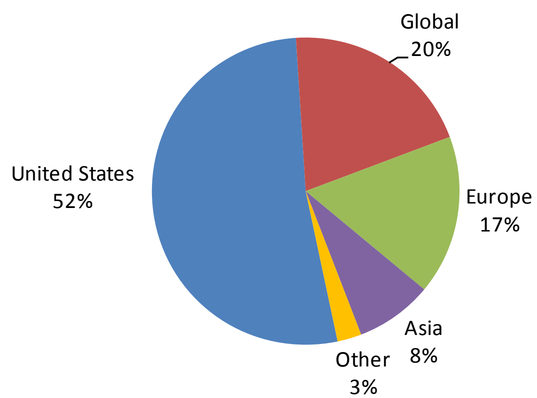
AIM Program NAV by Geography: $34.1 B



Source: LP Capital Advisors

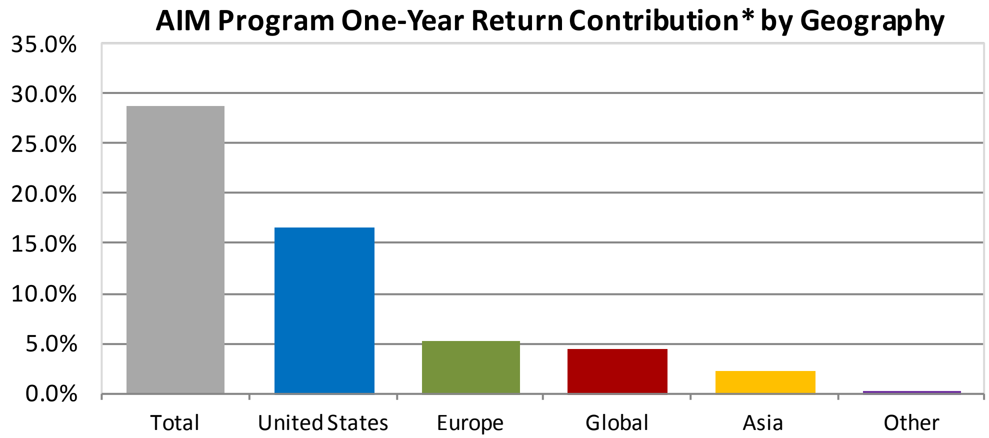
The United States is expected to receive only 52% of remaining unfunded commitments, thereby prospectively increasing the global nature of the AIM Program.

AIM Program Unfunded Commitments by Geography: $14.1 B



Source: LP Capital Advisors

Performance results remained in positive territory across all geographic sectors over the latest one-year period. The **United States, representing the largest exposure of the portfolio, had the largest impact on performance** results over the past year. AIM's Europe exposures provided the second largest positive contribution followed closely by the Global exposures.

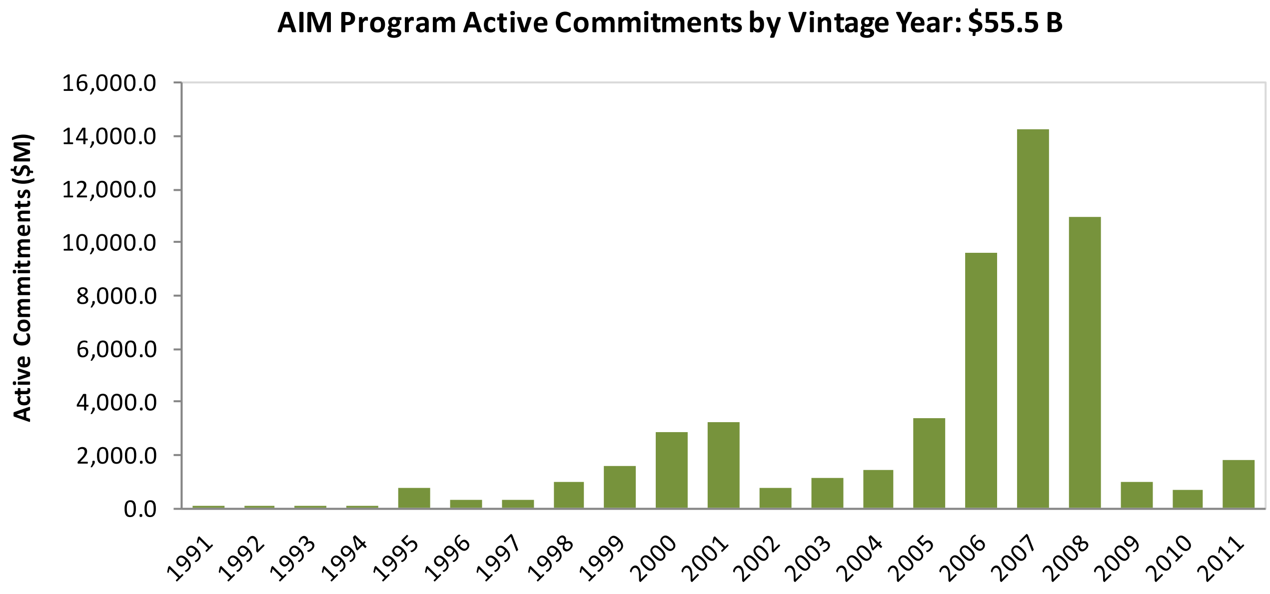


* Geographic return weighted by proportion of NAV.
Source: LP Capital Advisors, PCA

Over the latest three-year period, AIM's United State's exposure was the largest contributor to performance as the AIM Program posted a 6.1% return. The United States offset, with the largest exposure within AIM, posted a 6.6% average annual return over the latest three-year period. The United States has historically represented the largest geographic component of the Program but this has decreased over recent years with the globalization of the portfolio. The United States exposure posted average annual returns of 9.8% and 8.8% over the latest five-year and ten-year periods, respectively. AIM's European exposure posted an average annual return of minus (0.7%) over the past three-year period, dampening aggregate results. AIM's European exposure has contributed to long-term results, generating strong returns of 14.4% and 16.9%, respectively, over the longer five-year and ten-year periods.

2.4 Portfolio Vintage Year Composition and Performance

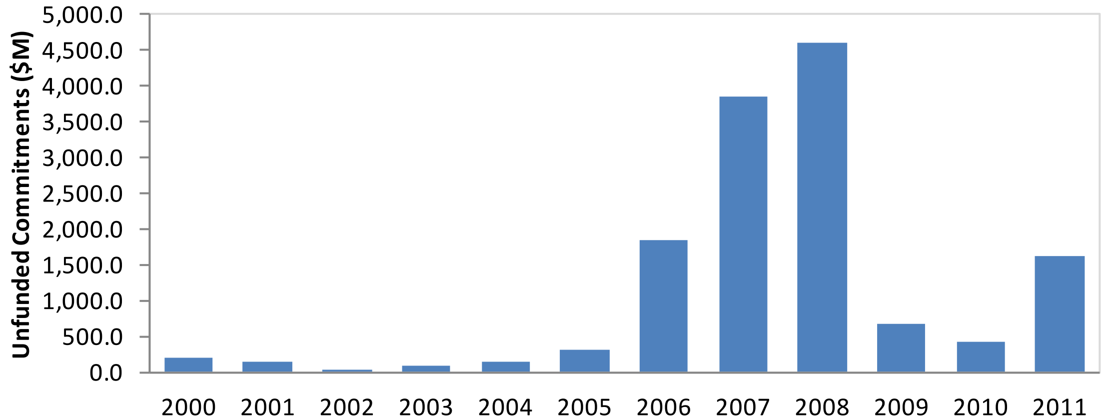
The AIM Program currently has $55.5 billion in active commitments. Consistent with the behavior of other large private equity investors, **AIM made very few new commitments in recent years** ($1.0 billion during 2009, $700 million in 2010 and $1.8 billion year-to-date in 2011).



Source: LP Capital Advisors

An analysis of the existing unfunded commitments shows that **general partners have substantial "dry powder"** ($14.1 billion) to pursue investments consistent with the strategies contained in their limited partnership agreements with AIM. The 2006 vintage year includes $9.6 billion of commitments and remains 19% unfunded as of September 30, 2011. Commitments categorized as 2007 and 2008 vintages were $14.2 billion (27% unfunded) and $11.1 billion (42% unfunded), respectively. Only $1.0 billion of commitments were categorized as a 2009 vintage, $690 million of which remains unfunded (70% unfunded). The 2010 vintage year commitments of $700 million have drawn approximately $262 million in contributions and are 61% unfunded. The 2011 commitments at September 30, 2011 have drawn down approximately $200 million and remain 89% unfunded.

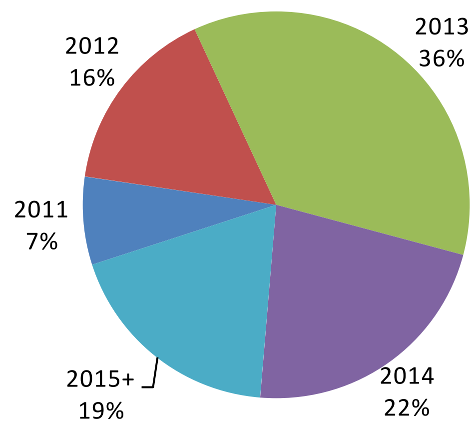
AIM Program Unfunded Commitments by Vintage Year: $14.1 B



Source: LP Capital Advisors

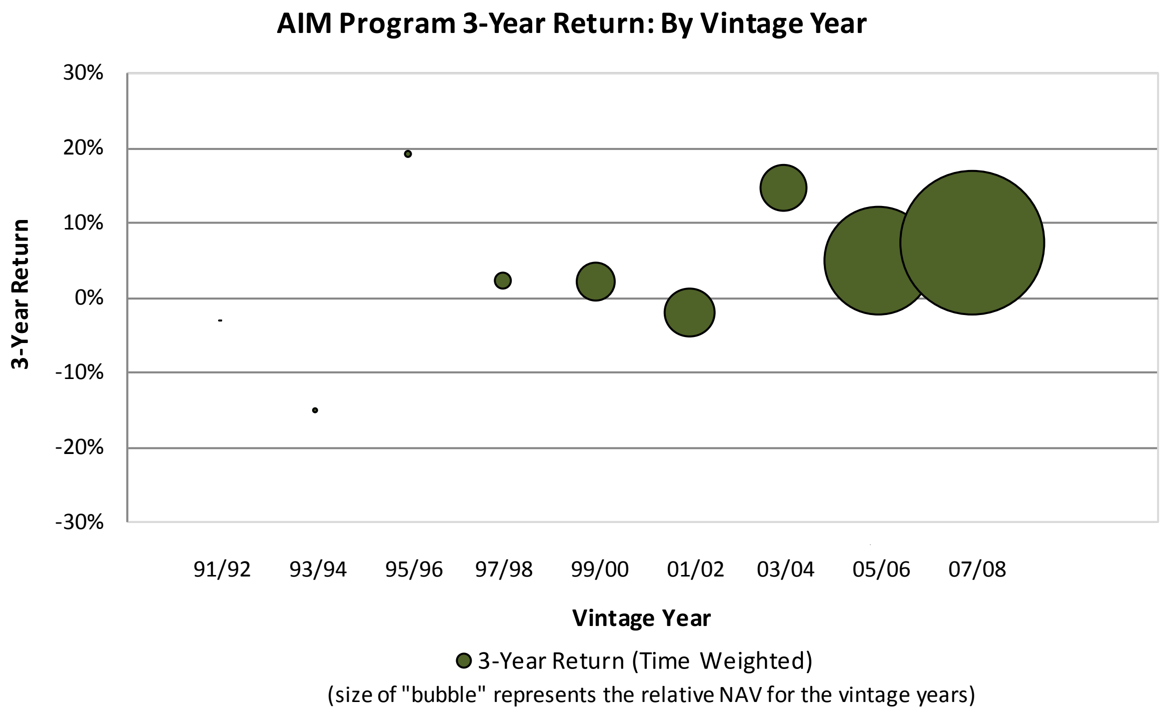
The majority of unfunded commitments are expected to be **deployed within the next three years** (as determined by the termination of the investment period). However, the pace at which capital is drawn down is primarily at the discretion of each general partner and may be called at any time.

AIM Program Unfunded Commitments by Termination of Investment Period



Source: LP Capital Advisors, PCA

The following chart depicts the distribution of returns and net asset values by vintage years for the AIM Program. Although the Program is in its twenty-first year, the preponderance of value (represented by the size of the "bubble") and **performance results are being driven by investments made in the last ten years**.



Source: LP Capital Advisors, PCA

2.5 Annual Commitment Activity and Manager Concentration

The AIM Program has committed to nine opportunities at September 30, 2011 categorized as a 2011 vintage.

AIM Commitment Activity: 2011 Vintage

Partnership	Commitment	Sector	Relationship
Avenue Special Situations Fund VI, L.P.	$150 M	Distressed - Non-control	Existing
Birch Hill Equity Partners (US) IV, L.P.	$150 M	Small Buyout	Existing
Blackstone Capital Partners VI, L.P.	$500 M	Mega Buyout	Existing
GSO Capital Opportunities Fund II, L.P.	$250 M	Credit Opportunities	Existing
Oaktree Opportunities Fund VIIIb, L.P.	$200 M	Distressed - Non-control	Existing
Francisco Partners III, L.P.	$100 M	Middle Market Buyout	Existing
Hellman & Friedman Capital Partners VII, L.P.	$300 M	Large Buyout	Existing
WCM GENPAR V, L.P.	$25 M	Middle Market Buyout	New
Wellspring Capital Partners V, L.P.	$150 M	Middle Market Buyout	New

Source: LP Capital Advisors, PCA

The five largest relationships, based on total exposure (defined as market value plus unfunded commitments) are listed below. Amongst these five firms, capital is allocated across 80 investments (investment vehicles, partnerships and direct investments) and targets multiple sectors and geographies.

Largest AIM Relationships by Total Exposure

Firm	Investments	Total Exposure ($M)	% of Program
Apollo Investment Management	14	4,912	11%
The Carlyle Group	36	4,694	10%
TPG Capital	16	2,664	6%
Blackstone Group	10	1,860	4%
Grove Street Advisors	4*	1,639	4%

* investment vehicles are diversified by commitments to underlying partnerships

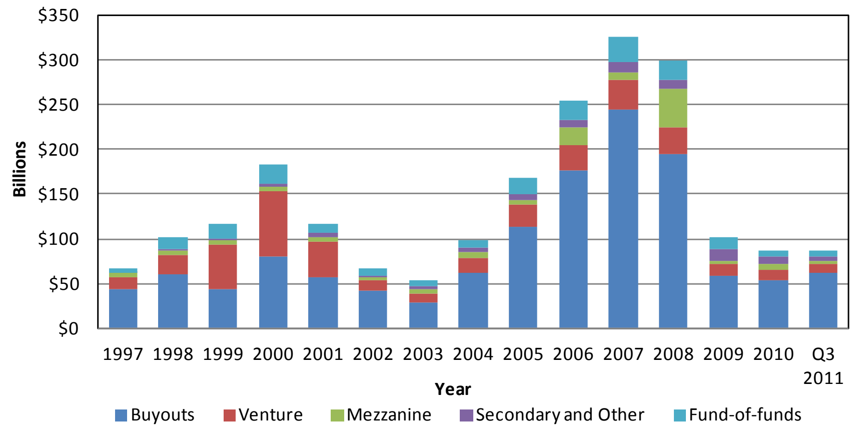
Source: LP Capital Advisors, PCA

3.0 Private Equity Market Environment

Fund Raising Trends

- Fundraising activity, after experiencing a year-over-year decline in 2010, saw an increase in domestic commitments through Q3 of 2011. Through the first nine months of 2011, \$86.7 billion was raised representing a 27.0% increase over the same period in 2010.
- Annualizing the activity year-to-date for 2011 suggests \$108 billion in commitments for 2011; however, fundraising levels have trailed off after the 1st half of 2011. 2011 has surpassed total 2010 fundraising volumes and is on pace to exceed 2009.
- Buyouts continued to lead fundraising activities through Q3 2011 raising \$61.7 billion of commitments, followed by venture capital at \$10.0 billion, fund-of-funds at \$7.1 billion, secondary and "other" at \$3.6 billion, and mezzanine at \$4.3 billion.

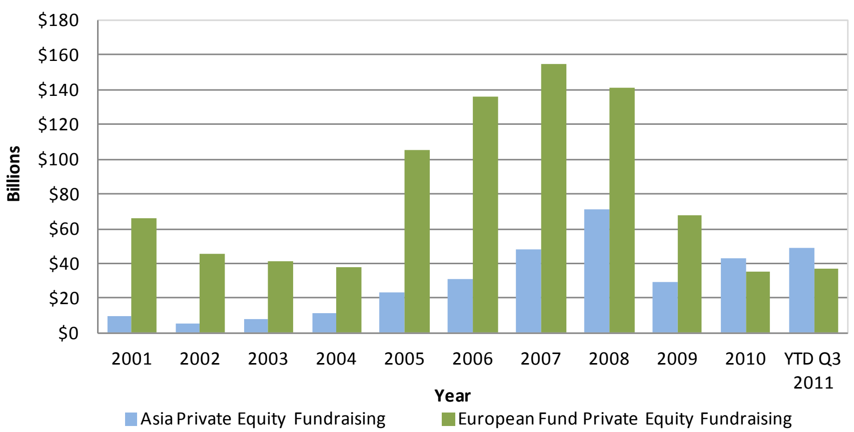
Commitments to U.S. Private Equity Partnerships



Source: *Private Equity Analyst* through October 2011

- Commitments to private equity partnerships outside of the U.S. have exhibited similar declines in fund raising activity over the past several years.
- Commitments to European funds had outpaced those to Asian private equity funds over most periods with both regions trailing the activity of the U.S. markets.
- In 2010 and year-to-date, Asia has broken with this trend as commitment levels to Asia have exceeded the capital raised by the European markets, according to Thomson Reuter's data.

Commitments to Non-U.S. Private Equity

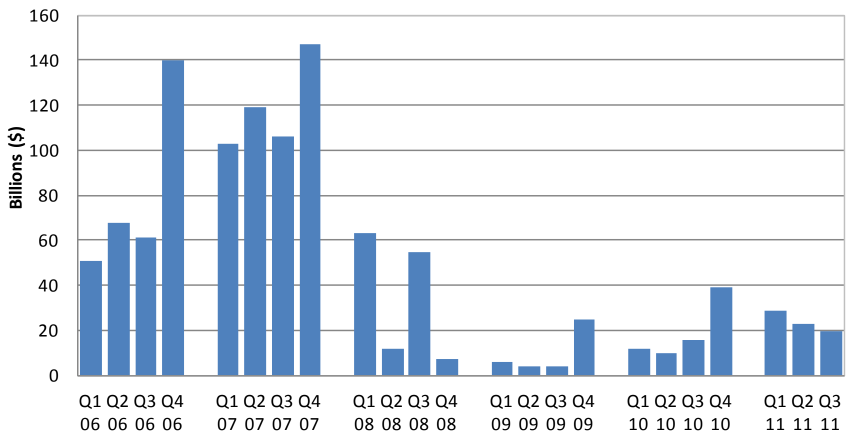


Source: Thomson Reuters

U.S. Buyout Market Trends

- U.S. buyout deal volume was $71.2 billion through Q3 2011 representing an 87.3% increase over that same period in 2010 and has surpassed aggregate deal volume for 2010.
- Q3 2011 buyout transactions declined from prior quarters due to remaining uncertainty about domestic economic recovery and European economic stability, increased competition from strategic buyers, the potential impact of impending financial regulations and a rebuilding of transaction pipelines. Q3 2011 numbers fell 31.5% and 14.8% from Q1 and Q2 2011, respectively. Q3 2011 disclosed deal volume of $19.6 billion compared to $23.0 billion in Q2 2011.
- Q3 2011 saw platform investments representing the largest proportion of transactions followed by add-on acquisitions, carve-outs, sponsor-to-sponsor, and take-privates.
- LBO activity remains well below the peak transaction levels of $320 billion and $475 billion for 2006 and 2007, respectively, but will be the most active year since 2009.

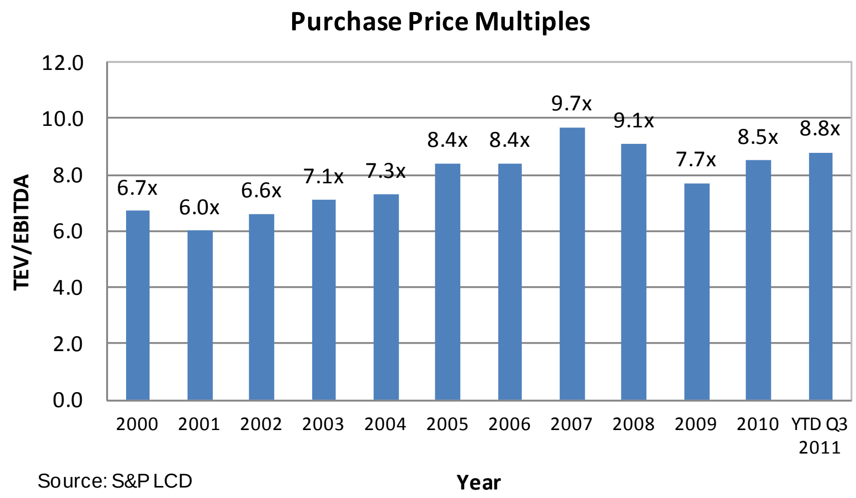
Disclosed U.S. Quarterly LBO Deal Value*



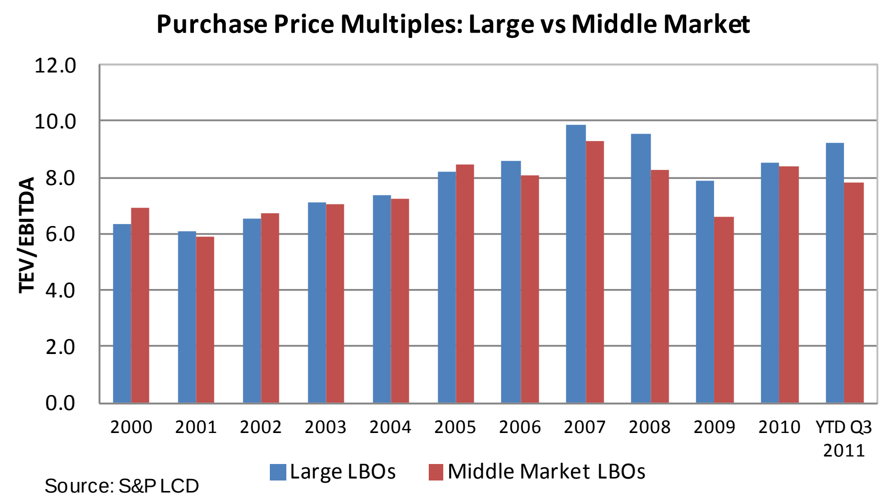
* Total deal size (both equity and debt).
Source: *Thomson Reuters Buyouts*

Purchase Price Multiples

- Purchase price multiples (as represented by total enterprise value divided by earnings before interest, taxes, depreciation and amortization or EBITDA) have exhibited volatility over the past several years. Purchase price multiples initially declined from their 2007 peak to a near-term low in 2009, but rebounded to 8.5x as of year-end 2010 and continued to increase year-to-date in 2011 to 8.8x.
- The average purchase price multiple for the first nine months of 2011 wasabove that of the 2010 calendar year and the ten-year average of 7.9x. The causes of the increased purchase price multiples may be attributable to significant amounts of “dry powder” remaining in the industry as well as increased access to affordable credit, especially at the upper and upper-middle markets.

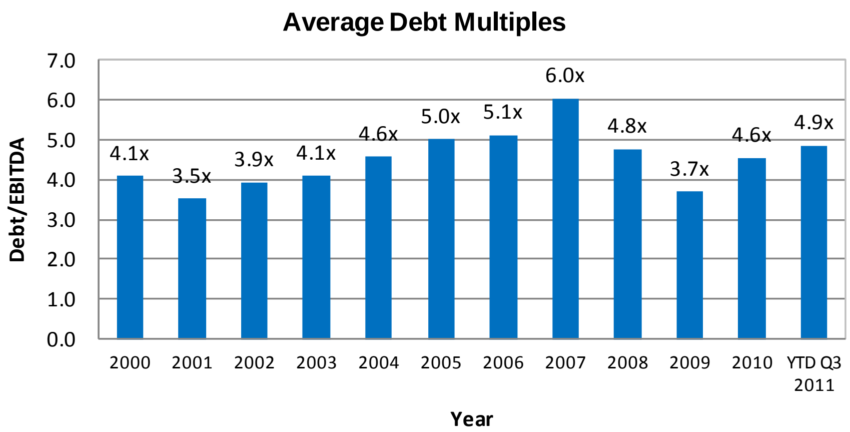


- Purchase price multiples for larger transactions (EBITDAs >$50 million and represented by the blue bars) have historically been higher than the purchase price multiples exhibited in the smaller and middle market (EBITDAs <$50 million and represented by the red bars). Given the expected focus on commitments to smaller/middle market opportunities over the near-term, there could be additional competition for deals going forward that could influence the purchase price multiple in the smaller end of the market.



Debt Multiples

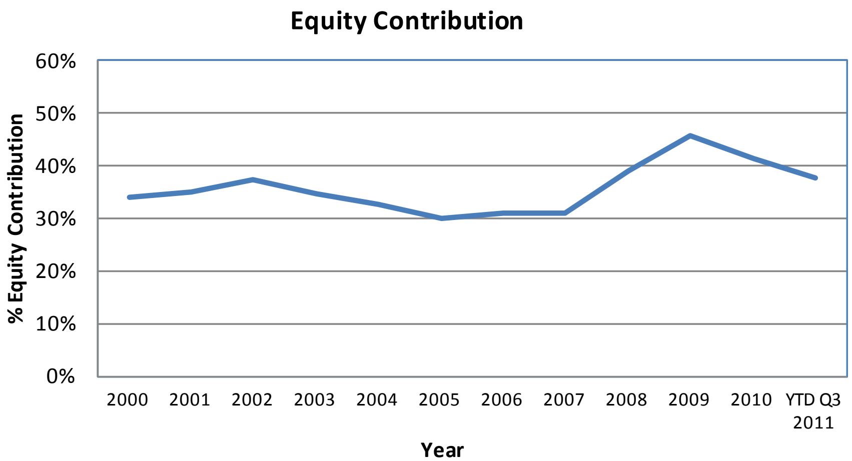
- The average debt multiple also declined from a peak in 2007 to a recent low in 2009 only to rebound in 2010 and through the first three quarters of 2011. The average debt multiple year-to-date in 2011 has been 4.9x which is well below the peak in 2007 yet still well above recent lows.



Source: S&P LCD

- The decline in average debt multiple from its peak resulted in an increase in the average equity component of a transaction to 46% in 2009 up from 31% in 2007. This trend reversed in 2009 as debt multiples increased and equity contributions began declining.

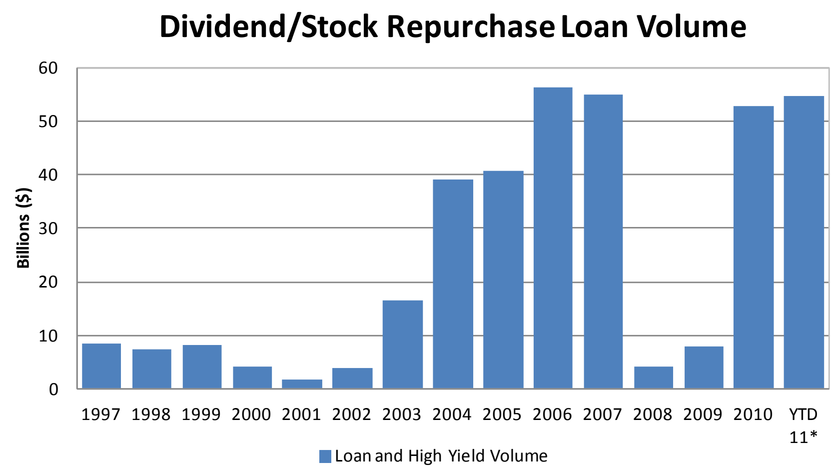
- These dynamics resulted in more conservative capital structures for transactions completed in 2009. However, the equity component of transactions began a steady decline through 2010 and into the first nine months of 2011. Year-to-date in 2011 exhibited an average equity contribution of 37.6%.



Source: S&P LCD

Recaps and Stock Repurchases

- The private equity market saw a re-emergence of dividend recaps and stock repurchase activity in 2010, which had virtually disappeared post credit bubble.
- Dividend recaps result in increasing leverage, and ultimately risk, at the portfolio company level.
- $54.7 billion in dividend recaps/stock repurchases occurred for the first nine months of 2011, already greater than the entire amount for last year ($52.7 billion). However, activity has declined over the latest quarter.



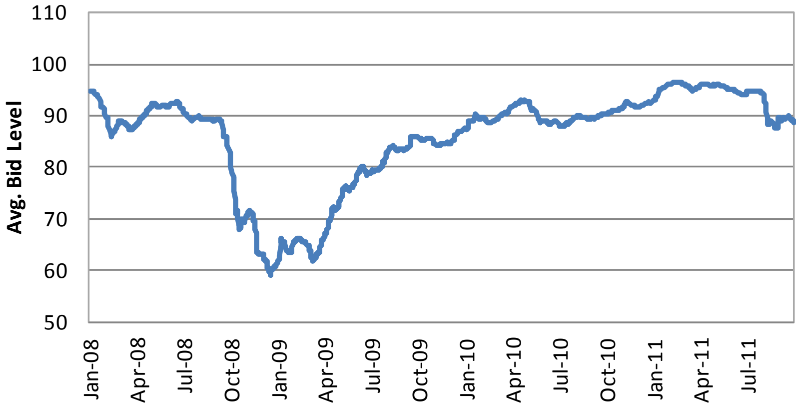
*through 9/30/2011

Source: S&P LCD, Bank of America Merrill Lynch

Distressed Debt

- The outlook for distressed debt investment strategies is mixed. The rebound in debt pricing had minimized the opportunity for trading strategies as renewed interest in the leveraged loan market had pushed the price of leveraged loans back towards par.
- However, recent market volatility has exhibited a pullback from those highs and has leveled off over Q3 2011 to end the quarter at 88.6.

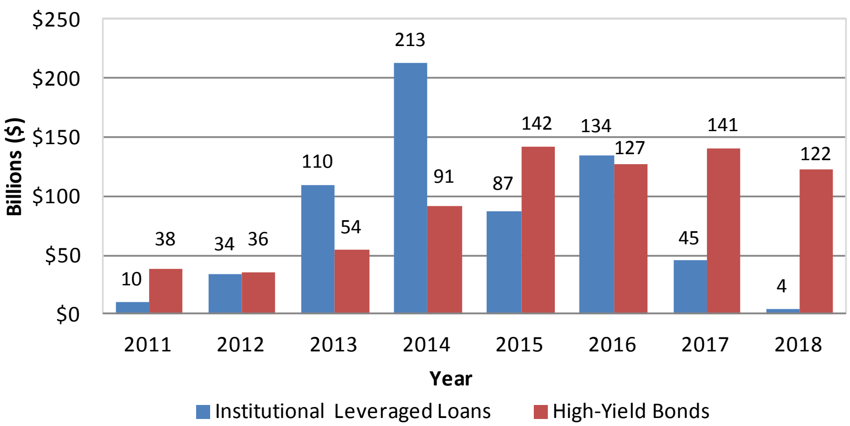
Leveraged Loan Index



Source: Loan Syndications and Trading Association (LSTA)

- The opportunity set for debt-for-control strategies remains unclear. There appears to be an attractive pending opportunity set, with the magnitude of debt that was "amended and extended" during the crisis resulting in a significant volume of debt issues that are maturing over the next several years. With the uncertain economic environment and changing availability of debt, the opportunity set for debt-for-control transactions may be positioned to grow.

U.S. High-Yield and Leveraged Loan Maturities



Source: Credit Suisse, Cerberus

U.S. Venture Capital Trends

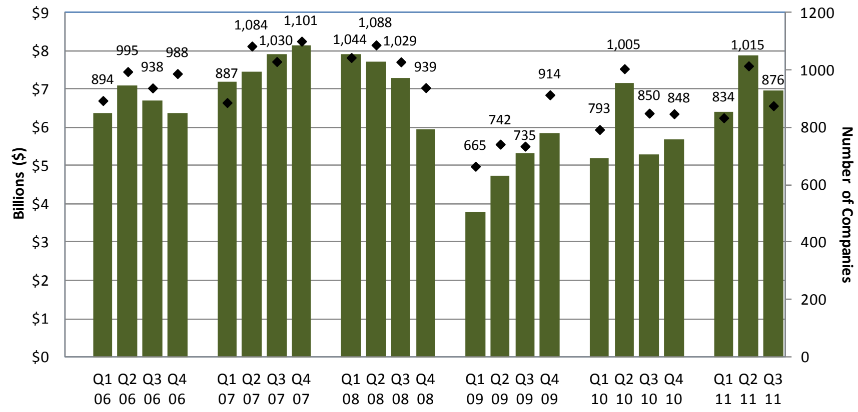
- Several favorable dynamics in the industry suggest potential for attractive long-term results going forward, including: reduced commitment to venture capital (i.e. less capital chasing deals resulting in less competition and better pricing); ability for entrepreneurs to create new companies at a lower cost due to ongoing technological enhancements; embedded value within existing venture capital portfolios that have yet to be realized. The first three quarters of 2011 saw an increase in funding levels as well as transaction volume relative to 2009 and 2010, though still below 2007.

- Venture capital investment activity increased throughout 2009, 2010 and the first three quarters of 2011. In the third quarter of 2011, 876 companies received approximately $7.0 billion of capital down from 1,015 companies and $7.9 billion in the second quarter of 2011.

- Approximately $23.4 billion was invested across 3,496 transactions in 2010, up from $19.7 billion invested across 3,056 transactions in 2009. Through the first three quarters of 2011, approximately $21.2 billion has been invested across 2,725 transactions.

- In comparison, approximately $28.8 billion was invested across more than 4,100 companies during 2008 and 4,102 companies attracted $30.7 billion of venture capital investment in 2007.

Quarterly U.S. Venture Capital Deal Volume*



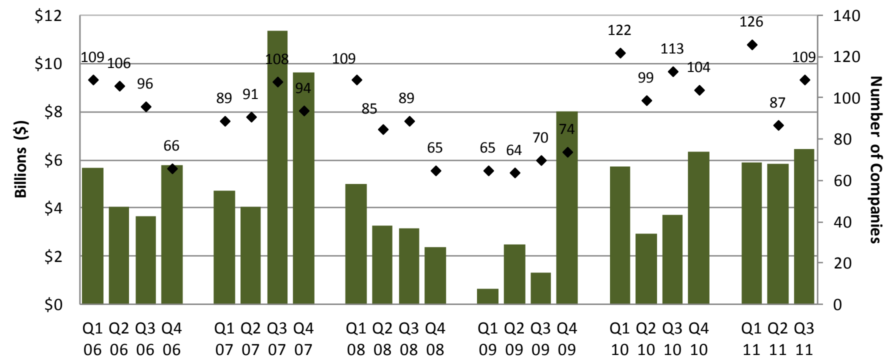
* Only includes equity portion of deal value.
Source: Thomson Reuters

Venture Capital Exit Environment

- Exit opportunities for venture-backed companies continue to show signs of increased activity. In 2010, 438 venture-backed M&A transactions representing $18.7 billion in value were completed, well above the $12.5 billion in value invested across 273 transactions in 2009. During the first three quarters of 2011, $18.2 billion was completed across 322 transactions.

- While transactions decreased from 126 in Q1 2011 to 87 in Q2 2011 they rebounded in Q3 to 109. Aggregate transaction value across the first three quarters exhibited relative stability.

Quarterly U.S. Venture Capital M&A Activity

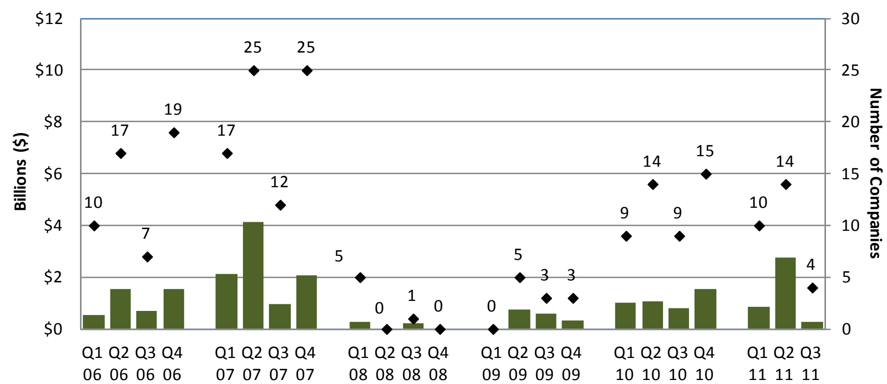


Source: Thomson Reuters

- The first two quarters of 2011 saw IPO activity exhibit signs of life as 14 venture-backed companies went public in the second quarter of 2011 raising $2.8 billion, up from 10 companies raising $0.8 billion in the first quarter of 2011. Q3 2011, though, saw a material decrease in IPO activity, the lowest since Q4 2009. Last year, 47 venture-backed companies went public, raising $4.4 billion while only 11 venture backed companies went public in 2009, raising $1.6 billion.

- The decrease in Q3 IPO activity may have been the result of a substantially "frothy" public equity market in which the Dow, on four separate occasions closed, either up or down, by at least 400 points. This coupled with ongoing Euro Zone worries helped to create an environment in which companies positioning themselves for exit were faced with more uncertainty and volatility then would be typically desired.

Quarterly U.S. Venture Capital IPO Activity



Source: Thomson Reuters

Appendix 1: AIM Relationships by Total Exposure

Firm	Total Exposure ($M)	% of Program
Apollo Management	4,912	11%
Carlyle Group	4,694	10%
TPG Capital	2,664	6%
Blackstone Group	1,860	4%
Grove Street Advisors	1,639	4%
CVC Capital Partners	1,546	3%
KKR	1,456	3%
Silver Lake	1,303	3%
Hellman & Friedman	1,100	2%
57 Stars	1,057	2%
Ares Management	1,026	2%
Advent International	957	2%
Centinela Capital Partners	934	2%
Yucaipa Companies	895	2%
First Reserve	788	2%
Avenue Capital Group	724	2%
Bridgepoint Capital	682	1%
SL Capital Partners	667	1%
Aurora Capital Group	664	1%
Health Evolution Partners	638	1%
Leonard Green & Partners	610	1%
WL Ross & Co	590	1%
Oak Hill Investment Management	584	1%
New Mountain Capital	485	1%
TowerBrook Capital	482	1%
Wayzata	473	1%
Hamilton Lane	451	1%
Arclight Capital	434	1%
Coller Capital	431	1%
MHR	430	1%
Capital Dynamics	425	1%
Conversus Asset Management	412	1%
Providence Equity	403	1%
Asia Alternatives	379	1%
Oak Hill Capital Partners	376	1%
KMCP Advisors	374	1%
Madison Dearborn	369	1%

Firm (continued)	Total Exposure ($M)	% of Program
Welsh Carson Anderson & Stowe	350	1%
Khosla Ventures	315	1%
Audax Group	315	1%
THL Partners	311	1%
SAIF Partners	272	1%
Permira	271	1%
Francisco Partners	259	1%
Birch Hill Equity	246	1%
Clessidra Capital	235	1%
Levine Leichtman	234	1%
Clearwater Capital	218	<1%
Oaktree Capital	200	<1%
Palladium Equity Partners	196	<1%
KPS Capital Partners	193	<1%
Lion Capital	190	<1%
The Jordan Company	188	<1%
Enterprise Investors	179	<1%
Lime Rock Partners	178	<1%
Wellspring	175	<1%
Court Square	175	<1%
Affinity Equity	163	<1%
Huntsman Gay Capital Partners	163	<1%
Lombard Investments	162	<1%
Aisling Capital	155	<1%
Riverwood	148	<1%
W Capital	141	<1%
Insight Capital	137	<1%
Magnum Capital	135	<1%
VantagePoint Venture Partners	125	<1%
Essex Woodlands Health Ventures	115	<1%
GGV Capital	112	<1%
TA Associates	111	<1%
Clarus Ventures	105	<1%
Crimson Capital	102	<1%
Parish Capital	101	<1%
Baring Vostok	101	<1%
Quadrangle	99	<1%
Other (44 partnerships)	1,908	4%

Source: LP Capital Advisors